BEFORE THE
PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA
DOCKET NO. 2018-319-E

IN THE MATTER OF:	)	
	)	
Application of Duke Energy Carolinas, LLC for Adjustments in Electric Rate Schedules and Tariffs and Request for an Accounting Order	)	**SURREBUTTAL TESTIMONY OF JUSTIN R. BARNES ON BEHALF OF VOTE SOLAR**

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.

A. Justin R. Barnes, 1155 Kildaire Farm Rd., Suite 202, Cary, North Carolina, 27511. My current position is Director of Research with EQ Research LLC.

Q. DID YOU PREVIOUSLY SUBMIT DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes. I submitted direct testimony on February 26, 2019 and errata to my direct testimony on March 7, 2019.

II. PURPOSE AND SCOPE

Q. WHAT IS THE PURPOSES OF YOUR SURREBUTTAL TESTMONY?

A. The purpose of my surrebuttal testimony is to respond to the rebuttal testimony filed by Duke Energy Carolinas' ("DEC" or "the Company") witnesses Janice Hager and Michael Pirro regarding the validity of the Minimum System Method of classifying distribution system costs for the purposes of cost allocation and rate design, and the establishment of a reasonable residential basic facilities charge ("BFC"). I also respond to Company Witness Pirro's new proposal that Schedule RS customers take service under rates with a demand component that recovers all non-minimum system distribution costs.[1]

[1] Rebuttal Testimony of Michael Pirro ("Pirro Rebuttal"), p. 10, lines 1-5.

Q. HOW IS YOUR SURREBUTTAL TESTIMONY ORGANIZED?

A. In Section III I address the validity of the Minimum System Method, which forms the basis for the Company's proposed residential BFC, primarily in response to Company Witness Hager. In Section IV I respond to the Company's assertions regarding proper amount of the residential BFC, and a new residential BFC proposal made by Company Witness Pirro. In Section V I address Company Witness Pirro's residential demand rate proposal. Section IV contains my concluding remarks and recommendations.

III. THE VALIDITY OF THE MINIMUM SYSTEM METHOD

Q. PLEASE DESCRIBE THE MINIMUM SYSTEM METHOD AND HOW DEC USES IT IN ITS COST OF SERVICE STUDY.

A. As I described in my direct testimony, the Minimum System Method postulates that some portion of the distribution system shared by all customers is customer-related and therefore allocable to customer classes based on the number of customers in a given class. In other words, a certain level of investment in the shared system would be required to connect a customer even if that customer had a minimal load. In practice, this results in a portion of costs in FERC Accounts 364-368, involving poles, overhead and underground conductors, and line transformers being classified as customer-related. Its use also has downstream effects beyond distribution cost allocation because other dynamic allocators are influenced by the results. The Company uses this method in its cost of service

study to calculate class allocations and the proposed $28.00/month residential BFC.

In my direct testimony I described the methodological failings of the Minimum System Method, summarized below:

1) It relies on a flawed premise that a customer with a zero or minimal load would desire a connection to the distribution system.
2) It tends to over-allocate distribution costs to highly populous rate classes, because a minimum system is typically capable of serving a considerable amount of demand, resulting in this demand being assigned largely to the highly populous classes, which then receive a further allocation of remaining demand-related costs based on the full class demands.

Q. WHAT RECOMMENDATIONS DID YOU MAKE IN YOUR DIRECT TESTIMONY REGARDING THE USE OF THE MINIMUM SYSTEM METHOD?

A. I recommended that the Public Service Commission ("Commission") reject its use for both cost allocation and rate design, and instead rely on the Basic Customer Method to define customer-related costs. The Basic Customer Method confines customer-related costs to those associated with metering, billing and collection, customer service, and the customer's service drop.

Q. HOW DOES THE COMPANY JUSTIFY THE USE OF THE MINIMUM SYSTEM METHOD AND RESPOND TO YOUR RECOMMENDATIONS?

A. In discussing the validity of the Minimum System Method, in both direct testimony and rebuttal testimony, Company Witness Hager relies primarily on the

National Association of Regulatory Commissioners Electric Utility Cost Allocation Manual ("NARUC CAM").[2] In rebuttal testimony Witness Hager also contends that Dr. James Bonbright, in his seminal work *Principles of Public Utility Rates*, lends support to the Minimum System Method by way of a statement that "the exclusion of minimum system costs from demand-related costs is on "much firmer ground" than its exclusion from customer costs."[3] This assertion was made in response to statements in my direct testimony relating Dr. Bonbright's discussion of the matter, where he characterizes the costs of a minimum distribution system as "unallocable".[4]

Q. HOW DO YOU RESPOND THE COMPANY WITNESS HAGER'S CONTENTION THAT THE NARUC CAM SUPPORTS THE COMPANY'S USE OF THE MINIMUM SYSTEM METHOD OF CLASSIFYING DISTRIBUTION COSTS?

A. I do not disagree that the NARUC CAM does suggest that some distribution costs could be considered customer-related. However, Company Witness Hager fails to appreciate that the NARUC CAM also characterizes such a practice as the subject of an "unresolved argument" among analysts.[5] In addition, the NARUC CAM also notes that "minimum-size distribution equipment has a certain load-carrying capability, which can be viewed as a demand-related cost."[6] Witness Hager also

[2] Rebuttal Testimony of Janice Hager ("Hager Rebuttal"), p. 8, lines 9-17.
[3] Hager Rebuttal, p. 8, lines 3-7.
[4] Dr. James Bonbright, *Principles of Public Utility Rates*, p. 348, Columbia University Press (1961).
[5] NARUC. Electric Utility Cost Allocation Manual. p. 136. 1991.
[6] *Id.*, p. 95.

fails to address the fact that a subsequent NARUC-commissioned report published nearly a decade later found that more than thirty states (at the time of the report) used the Basic Customer Method of classifying distribution costs rather than the Minimum System Method.[7]

Ultimately the fact that the Basic Customer Method is not well-represented in the NARUC CAM is not indicative of its broader level of acceptance, which is higher than the acceptance of the Minimum System Method and associated variations. Earlier draft versions of the NARUC CAM and related discussions included the Basic Customer Method in addition to the Minimum System Method and Zero-Intercept Method as methodologies for classifying distribution costs. The Basic Customer Method was apparently removed from the final version, eliciting concerns by least one state regulatory agency. Surrebuttal Exhibit JRB-1 contains a letter from the Washington Utilities and Transportation Commission ("UTC") voicing the UTC's concerns about the omission of the Basic Customer Method from the NARUC CAM. Among other things, the letter notes that UTC staff believes it to be the most common approach taken by regulators throughout the country, citing the states of Arizona, Iowa, and Illinois as states that have explicitly rejected the Minimum System Method and Zero-Intercept Method.

[7] F. Weston, et al., *Charges for Distribution Service: Issues in Rate Design*, p. 19, REGULATORY ASSISTANCE PROJECT (2000), *available at:* http://pubs.naruc.org/pub/536F0210-2354-D714-51CF-037E9E00A724.

Q. HAVE OTHER STATES ALSO REJECTED THE USE OF THE MINIMUM SYSTEM METHOD OR THE MINIMUM INTERCEPT METHOD IN RECENT YEARS?

A. Yes. As I described in my direct testimony, legislators in Connecticut directed the Public Utilities Regulatory Authority ("PURA") to utilize the Basic Customer Method in 2015.[8] Likewise, in 2018 regulators in Colorado directed Black Hills Energy to eliminate the Minimum Intercept Method from its cost of service study in the utility's most recent general rate case.[9]

Q. IS COMPANY WITNESS HAGER'S CHARACTERIZATION OF BONBRIGHT'S VIEWS ON CUSTOMER COST CLASSIFICATION AN ACCURATE REPRESENTATION OF HIS THOUGHTS ON THE MATTER?

A. No. Company Witness Hager selectively truncates Dr. Bonbright's writing in a manner that distorts the meaning. First, in discussing distribution cost classification and a hypothetical minimum-sized distribution system, Dr. Bonbright states "the inclusion of the costs of a minimum-sized distribution system among the customer-related costs seems to me clearly indefensible."[10] Witness Hager relates subsequent text where Dr. Bonbright avers that minimum

[8] Connecticut Public Act 15-5, June Special Session, *available at:* https://www.cga.ct.gov/asp/cgabillstatus/CGAbillstatus.asp?selBillType=Bill&bill_num=1502&which_year=2015

[9] Colorado Public Utilities Commission. Docket No. 17AL-0477E. Decision No. C18-0445. June 15, 2018, *available at*: https://www.dora.state.co.us/pls/efi/efi_p2_v2_demo.show_document?p_dms_document_id=887641

[10] James Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1961, p. 348.

system costs ought also to be excluded from demand-related costs ("the exclusion of minimum system costs from demand-related costs is on "much firmer ground" than its exclusion from customer costs."[11]). However, she fails note that Dr. Bonbright closes the loop on the matter by concluding that the costs of a minimum-sized distribution system are "strictly unallocable", while further cautioning against rendering the category of customer costs a "dumping ground" for costs that defy easy categorization.[12]

Q. WHAT ARE THE MOST APPROPRIATE CONCLUSIONS TO REACH FROM YOUR DISCUSSION OF THE NARUC CAM AND DR. BONBRIGHT'S WORK?

A. The most reasonable conclusions are: (1) the costs of a minimum-sized system are not customer-related, and (2) a majority of states recognize this by limiting the customer-related classification to the costs of meters, billing and collection, customer service, and customer service drops, and classifying 100% of the costs associated with the shared distribution system as demand-related. How to allocate those costs is apparently a matter of debate in Dr. Bonbright's thinking, but he clearly believed that a customer-related classification is inappropriate. A conclusion that the full scope of distribution costs are demand-related makes the most sense because a hypothetical minimum-sized distribution system is typically capable of supporting a sizable amount of customer demand.

[11] Hager Rebuttal, p. 8, lines 3-7.
[12] James Bonbright, *Principles of Public Utility Rates*, Columbia University Press, 1961, p. 348.

Q. IN LIGHT OF THE CONCERNS YOU HAVE RAISED ABOUT THE OVERALLOCATION OR DOUBLE-COUNTING OF DISTRIBUTION COSTS TO POPULOUS RATE CLASSES, IS THERE EVIDENCE INDICATING THAT THE COMPANY'S MININUM SYSTEM WOULD SUPPORT A SIGNIFICANT AMOUNT OF DEMAND?

A. Yes. Company Witness Hager voices confusion about my contention that the Minimum System Method causes to be double-counted.[13] I made this statement in my direct testimony in reference to the fact that, as the NARUC CAM observes, a minimum-sized distribution system has a load carrying capability that can be viewed as a demand-related cost. A populous class such as the residential class is allocated the bulk of these demand costs by the Minimum System Method, while also receiving an allocation of the remaining demand-costs based on full class demand. I referred to this as "double-counting", which I believe is an accurate description, though the effect could also be described as "double-allocation" or "over-allocation".

Such an effect is most easily visible in the context of line transformers. If every one of DEC's roughly 709,000 customers had a minimal demand consisting of a 100-Watt light bulb, the system load would be roughly 70.9 MW, on the order of 1% of the Company's South Carolina retail non-coincident peak load of roughly 6,988 MW.[14] The Company's minimum-sized system is composed of

[13] Hager Rebuttal, p. 14, lines 7-9.
[14] DEC response to VS 1-20(a), Attachment entitled "VS DR 1-20 DEC_Unit Cost Study". Attached in Surrebuttal Exhibit JRB-2, p. 5.

approximately 211,000 15-kVa line transformers.[15] Thus the combined kVa rating of the "minimum-sized" system is roughly 3,175 MVa. This amounts to 45.4% of South Carolina retail non-coincident peak load. Clearly, a system composed of the minimum-sized line transformers would support significant demand in excess of a scenario where each customer possesses only a minimal lighting load.

Q. DOES COMPANY WITNESS HAGER TAKE ISSUE WITH ANY OTHER PORTIONS OF YOUR DIRECT TESTIMONY THAT YOU WISH TO RESPOND TO?

A. Yes. Witness Hager states that my derivation of the costs for a grid-independent solar and battery storage system that would provide the same level of service as system capable of supporting a minimal lighting load is irrelevant because the Company's cost of service study focuses only on allocating embedded costs.[16]

Q. HOW DO YOU RESPOND TO THIS CRITICISM?

A. Company Witness Hager misses the points I am making based on this analysis. My first point, as I discuss at length in my testimony, is that the Minimum System Method is increasingly anachronistic. It rests on a hypothetical "what if" scenario (i.e., a customer with a minimal service need) that I have demonstrated would not occur in the modern day. When the central element of such a "what if" scenario is at best highly implausible, one should question the conceptual framework of the method itself.

[15] DEC response to VS 1-18, Attachment entitled "VS DR 1-18 DEC MinSys_1217". Attached in Surrebuttal Exhibit JRB-2, p. 3.
[16] Hager Rebuttal. p. 13, lines 19-21 and p. 14, lines 1-3.

Second, as I observed in the context of principles of utility ratemaking, when a natural monopoly such as electric distribution service is present, regulation should function as a substitute for competition. In this instance, the Company is seeking a residential BFC in an amount that would be uncompetitive with other options that provide the same hypothetical level of service. This also points to fundamental flaws in the methodology. Customers connect to the grid in order to receive service for their full demands. Even if they desired the minimal level of service contemplated by the Minimum System Method, they would not elect to take that service from the Company at the rates the Company proposes to charge.

IV. THE RESIDENTIAL BFC

Q. WHAT RECOMMENDATIONS DID YOU MAKE REGARDING THE SETTING OF THE RESIDENTIAL BFC IN YOUR DIRECT TESTIMONY?

A. Based on my review of the Company's calculated customer-related costs without a minimum system assumption, and certain modifications I made thereto, I derived a reasonable maximum BFC of $11.64/month. In the interest of gradualism, I recommended that the BFC be increased by no more than the overall percentage increase in residential rates approved by the Commission.

Q. PLEASE SUMMARIZE THE COMPANY'S RESPONSES TO YOUR DIRECT TESTIMONY REGARDING THE RESIDENTIAL BFC.

A. Company Witness Pirro contends that my recommended residential BFC would create inaccurate price signals, cause high usage customers to subsidize low usage customers, and result in low usage customers failing to pay the costs associated with serving them.[17] Company Witness Hager raises a similar concern, that moving costs from the customer classification to other classifications would result in customers such as those with summer homes or on-site solar installations not paying their "fair share of the costs of distribution facilities."[18] Further portions of Witness Pirro's rebuttal testimony on the residential BFC:

- State that he "believes there is merit" to the concerns raised by myself and several other witnesses regarding the lack of gradualism present in the initially proposed residential BFC, and suggest a "possible" alternative approach that would result in a residential BFC of $18.15/month.[19]
- Opine that the proposed residential BFC would not disproportionately harm low-income customers.[20]

[17] Pirro Rebuttal, p. 6, lines 8-15.
[18] Hager Rebuttal, p. 6, lines 4-23, quote at lines 21-22.
[19] Pirro Rebuttal, p. 10, lines 8-21.
[20] *Id.*, p. 6-7.

Q. HOW SHOULD THE COMMISSION VIEW THE COMPANY'S ARGUMENT THAT YOUR RESIDENTIAL BFC RECOMMENDATIONS WOULD CAUSE LOW USAGE CUSTOMERS TO BE SUBSIDIZED BY HIGH USAGE CUSTOMERS?

A. The Commission should give this argument no weight because the Company has not presented any supporting evidence or analysis. The single most basic question that must be asked when evaluating such an assertion is "What is the definition of a low usage customer?" Yet when Vote Solar asked this simple question to Company Witness Hager based on similar statements contained in her direct testimony, the Company's response stated "the use of the term "low use customer" was meant to be general in nature" and was not intended to refer to any specific usage threshold.[21] Cost of service is a discipline of evidence and numbers, not broad assertions or generalizations. Statements for which the Company cannot respond to the most basic interrogatory with a substantive answer should not be considered credible.

Q. IS THERE MERIT TO COMPANY WITNESS HAGER'S ASSERTION THAT RESIDENTIAL NET METERING CUSTOMERS ARE AVOIDING PAYING THEIR "FAIR SHARE" OF SERVICE COSTS?

A. No. In fact based my own calculations there is reason to believe that the value of residential net metering production, in the form of reduced allocations of costs assigned based on coincident peak contribution and the marginal time-varying value of customer-generated energy, exceeds the retail rate that these customers

[21] DEC response to VS 1-4(a). Attached in Surrebuttal Exhibit JRB-2, p. 1.

avoid. In my direct testimony (as updated by subsequent errata) I estimated that residential net metering customers produced a $3.1 million benefit to the residential class due to reductions in allocations based on coincident peak demand. Based on this estimated cost of service benefit spread across annual estimated energy production from these same systems, plus the Company's calculated marginal time-varying energy costs from its 2017 fuel cost proceeding, the value of that generation translates to roughly 12.2 cents/kWh.[22]

By way of comparison, if the revenue requirement for Schedule RS and Schedule RE customers combined was spread across energy sales *with a zero residential BFC*, the total retail energy rate would be 11.85 – 12.00 cents/kWh depending on whether the total revenue requirement is based on cost of service without or with the use of the Minimum System Method. At a $10/month residential BFC, the retail volumetric rate would be 10.90 – 11.04 cents/kWh, again varying by whether a minimum distribution system assumption is used.

Q. DO YOU AGREE THAT COMPANY WITNESS PIRRO'S "POSSIBLE APPROACH" TO SETTING THE RESIDENTIAL BFC IS REASONABLE?

A. No. Witness Pirro's derivation is based on increasing the residential BFC by 50% of the difference between the current charge of $8.29/month and the Company's minimum-system derived theoretical residential BFC of $28.00/month.[23] This would result in an increase of $9.86/month, to $18.15/month. The $28.00/month

[22] Marginal avoided energy costs from Commission Docket No. 2017-3-E. Direct Testimony of Jason Martin. p. 8, Table 4. July 28, 2017.
[23] Pirro Rebuttal, p. 10, lines 16-21.

amount hinges on the use of the Minimum System Method, which as I have discussed at length, should not be utilized in the Company's cost of service study. Thus the amount of the increase under this approach is biased by the inappropriate upper benchmark. My own derivation of a reasonable maximum residential BFC is $11.64/month. Even that amount may be overstated because as discussed in my direct testimony, this amount includes the full cost of the Customer Connect platform as customer-related, even though Customer Connect is intended to also serve energy and demand-related use cases, and it was not possible to fully evaluate general and administrative costs that should not be included in a customer charge.

I also disagree that such an increase is a reasonable adherence to the principle of gradualism. Such an increase would still be the largest adopted for an investor-owned utility ("IOU") in monetary terms in rate cases filed since July 2014. The next largest is a $7.69/month increase allowed for Alaska Power in October 2017. It would also more than double the current residential BFC, a percentage increase of 119%, which exceeds all other increases in percentage terms except one. That single example is for Duke Energy Kentucky, for which an increase from $4.50/month to $11.00/month (144%) was authorized in 2018. The Kentucky result though, is far more consistent with the national average residential customer charge of $10.42/month.

Q. HOW DO YOU RESPOND TO COMPANY WITNESS PIRRO'S CONTENTION THAT RESIDENTIAL BFC INCREASES WOULD NOT DISPROPORTIONATELY HARM LOW-INCOME CUSTOMERS?

A. Witness Pirro provided a chart purporting to illustrate that low-income customers would not be disproportionately harmed by the Company's proposed BFC, showing a wide range of average monthly usage among low-income customers ($30,000 or less in annual household income).[24] The Commission should give no weight to Witness Pirro's assertions associated with this figure. When asked, the Company could not provide the underlying data necessary to reproduce the graph and perform more than a visual evaluation. Vote Solar requested all data associated with the production of this figure, but the Company's response did not include monthly usage data, a core element of the figure and the basis for Witness Pirro's assertions.[25]

Furthermore, based on visual inspection alone, the figure appears to show that a majority of low-income customer bills are for usage below the residential class average. The class average generally defines the usage threshold at which a customer is indifferent to whether revenues are collected via a fixed monthly charge or a volumetric charge. If the percentage of low-income customers with average usage below the class average is larger than the percentage with above average usage, the proposed residential BFC would disproportionately adversely

[24] Pirro Rebuttal, p. 7, un-numbered figure between lines 2 and 3.
[25] DEC response to VS 8-1(a), Attachment labeled "Vote Solar Data Request 8-1". Attached in Surrebuttal Exhibit JRB-2, p. 7.

impact low-income customers because a majority are made worse off by increases in the residential BFC.

Q. IN THE HYPOTHETICAL, IF A MODEST MAJORITY OF LOW-INCOME CUSTOMERS ARE MADE BETTER OFF BY LOWER FIXED CHARGE RATES, DOES THAT NOT ALSO MEAN THAT A SIGNIFICANT MINORITY WOULD BE MADE WORSE OFF?

A. It does, but high fixed charges coupled with lower usage charges are a poor solution for addressing the needs of those high usage customers. For one, in this hypothetical scenario higher fixed charges would be punitive on a group of customers that is larger than the group they help. Second, inordinately high usage can be addressed through targeted energy efficiency initiatives. Such a strategy can produce outcomes that leave all customers better off, rather than just helping some at the expense of others.

V. DEMAND CHARGES FOR RESIDENTIAL CUSTOMERS

Q. PLEASE SUMMARIZE COMPANY WITNESS PIRRO'S PROPOSAL TO ESTABLISH A DEMAND CHARGE FOR SCHEDULE RS CUSTOMERS.

A. Witness Pirro's proposal is only vaguely defined, stating that the Company should revise Schedule RS to establish a demand component that recovers all distribution costs not reflected as customer-related by the Minimum System Method.[26] While Witness Pirro's rebuttal testimony refers specifically to Schedule RS customers, in response to an information request, the Company indicates that if approved by

[26] Pirro Rebuttal, p. 10, lines 1-5.

the Commission, demand rates would apply to all residential rate schedules.[27] The basis for this proposal is Mr. Pirro's opinion that cost causation is best served by recovering demand-related costs through demand charges.[28]

Q. DO ANY OTHER IOUS IN THE COUNTRY INCLUDE DEMAND CHARGES UNDER STANDARD OR MANDATORY RESIDENTIAL RATE SCHEDULES?

A. No. I have researched this topic exhaustively and demand charges within standard residential rates are not present for any IOU. A number of utilities offer optional residential demand rates, including DEC, but none make them mandatory for the entire residential class as the Company proposes.

Q. ARE DEMAND CHARGES CONSISTENT WITH COST CAUSATION FOR RESIDENTIAL CUSTOMERS?

A. It is necessary to speak in generalities here because the details of the Company's proposal are sparse. That said, as typically practiced in the form of charges based on monthly non-coincident peak demand, they are not aligned with cost causation. Demand-related costs are caused by customer contributions to peaks at different levels of the system. A non-coincident demand charge does not reflect the time-varying nature of demand that causes these costs, or load diversity.[29] For customers with consistent loads that tend to correspond to peak times, the inaccuracies may be tolerable. Such is not true for the residential class, as

[27] DEC response to VS 8-3(a). Attached in Surrebuttal Exhibit JRB-2, p. 9.
[28] Pirro Rebuttal, p. 10, lines 1-5.
[29] Load diversity refers to the fact that the sum of non-coincident peak loads of a group of individual customers is less than the maximum load that the same group of customers places on the system because the individual customer peak loads occur at different times.

individual customer loads tend to be highly variable over the course of a day, month, or season. Furthermore, demand charges are blunt instruments that fail to capture how much a customer contributes *on average* to the peaks that drive costs, since billing demand is typically measured at time scales ranging from 15 minutes to an hour.

Q. DO RESIDENTIAL CUSTOMERS CURRENTLY PAY FOR THE COSTS ASSOCIATED WITH THE DEMAND THEY PLACE ON THE DISTRIBUTION SYSTEM?

A. Yes, they simply do so based on their average demands because volumetric rates effectively spread demand-related costs across all hours, or in the case of time-varying rates, the hours that correspond to peak and off-peak periods.

Q. BEYOND COST CAUSATION, ARE THERE OTHER REASONS THAT MANDATORY DEMAND RATE DESIGNS ARE NOT USED IN RESIDENTIAL RATES?

A. Yes. There is a general acknowledgement that for residential customers, demand rates effectively act as a fixed charge because most residential customers are relatively unsophisticated and do not understand them. Moreover even customers do possess a conceptual understanding, it is likely that the vast majority do not have the ability manage their demands in the same way that a larger, more sophisticated customers can.

Q. WOULD THE COMPANY'S PROPOSAL LEAD TO A MORE ECONOMICALLY EFFICIENT RATE STRUCTURE FOR RESIDENTIAL CUSTOMERS?

A. No. Economic efficiency is achieved by sending an accurate price signal that customers are equipped to respond to. As I discuss above, as traditionally implemented, demand charges are not consistent with cost causation for residential customers, thus the price signal is not accurate. Second, rates only produce more economically efficient outcomes if customers can respond to them. If customers cannot respond, a new price signal just creates a different set of winners and losers without increasing economic efficiency.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION REGARDING WITNESS PIRRO'S RESIDENTIAL DEMAND CHARGE PROPOSAL?

A. The Commission should reject the proposal. As a threshold matter, it would be inappropriate to consider a new proposal that contemplates dramatic changes to residential rate structure at this stage of the proceeding. Furthermore, the proposal itself is ill-defined and lacks anything resembling the level of detail and evidentiary support necessary to determine whether it would produce just and reasonable rates and achieve the proper balance of ratemaking objectives.

VI. CONCLUSION

Q. DOES ANY INFORMATION PROVIDED BY THE COMPANY IN ITS REBUTTAL CHANGE ANY OF THE RECOMMENDATIONS YOU MADE IN YOUR DIRECT TESTIMONY?

A. No, my initial recommendations are unchanged. However, I additionally recommend that the Commission disregard Company Witness Pirro's proposal to establish a demand charge for residential customers. Beyond the fact that it would be inappropriate to consider such a significant new rate design proposal at this stage of the proceeding, the proposal itself is unprecedented and vaguely defined, and the Company has not provided any substantive analysis of why it is needed and how it would impact customers.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.